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UNCLAS SECTION 01 OF 03 LAGOS 001188

SIPDIS

STATE PASS TO EXIM, OPIC AND TDA  
LONDON AND PARIS PASS TO AFRICA WATCHERS  
KABUL PASS TO SROSS  
DIA/J2 PASS TO GHAYES

SENSITIVE BUT UNCLASSIFIED

E.O. 12958: N/A

TAGS: [EPET](#) [EINV](#) [PGOV](#) [ECON](#) [NI](#)

SUBJECT: BAD WITH THE GOOD - FUEL PRICES RISE AS OIL  
PRICES SOAR

REF: A: 2004 LAGOS 30

B: 2003 Lagos 2422

11. (SBU) SUMMARY. As Nigerians wonder if a nationwide strike will be called yet again over fuel prices, private fuel marketers have decided to scale back their import level of the last 60 days as they launch a public awareness campaign of their own to explain the rise in gasoline prices. Official consumer fuel prices have risen nearly 20 percent in the last month with the rising tide of world petroleum prices, and the government will be hard pressed to meet demands of labor unions threatening to strike unless prices are reversed to December 2003 levels. While the GON has not been collecting the controversial fuel tax that sparked strike threats in January and led to a court order maintaining a fragile peace between the federal government and the unions, NNPC is still in the fuel business and keeping prices from rising even faster by marketing at least half of Nigeria's fuel consumption at subsidized rates. END SUMMARY.

12. (U) As world petroleum prices reached record highs in recent weeks, the price of fuel in Nigeria has also been rising. Pump prices for gasoline in Lagos on June 7 were generally 49.90 naira per liter, 20 percent higher than a month ago, and news reports indicate prices are even higher in distant regions of the country. The Nigeria Labour Congress (NLC) has threatened a nationwide strike on Wednesday, June 9, in protest of the high prices, and is demanding that the federal government reduce fuel prices to the December 2003 level of 36 naira per liter. The NLC is backing away from a claim that the GON violated a court order of January 2004 that prohibited it from imposing a fuel tax of 1.5 naira per liter. Industry sources tell us the fuel tax has not been collected by the government nor charged by marketers since the court order was issued, however.

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Root Cause: Supply and Demand  
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13. (U) Marketers insist that the rise in fuel prices in Nigeria is directly linked to rising world petroleum costs and other market forces. Nigeria's refineries are operating well below capacity, which forces Nigeria to continue to import most of the fuel it consumes including gasoline (petrol), diesel, kerosene and jet fuel. The government, for the most part, seems to accept the marketers' explanation. While some officials at the Department of Petroleum Resources (DPR) and the Petroleum Products Pricing Regulatory Authority (PPPRA) have publicly stated displeasure over "unauthorized" fuel price increases, it seems regulators are allowing fuel prices to rise without taking action against retailers.

14. (U) Marketers have also felt a cash flow pinch in recent weeks, after the Nigerian National Petroleum Corporation (NNPC) shortened its credit window on fuel purchases from 30 to 15 days for major marketers. Some marketers responded by revising their per-liter consumer price in order to more quickly cover the cost of NNPC-sourced fuel and to cover the high cost of borrowing money when required for international or NNPC fuel purchases.

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Just When It Thought It Was Out  
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15. (SBU) O.T. "Jimmy" Adelekan, Executive Director of Texaco Nigeria, told Econoff on June 7 that during much

of March, April and May, private marketers imported roughly half of the fuel consumed in Nigeria, leaving NNPC responsible for the other half through refinery production and imports. Adelekan said that during April and through May 20, marketers imported 100 percent of the fuel offloaded at the Apapa fuel jetty in Lagos, which accounts for half of the nation's total fuel consumption. Adelekan said that the Port Harcourt refinery may be producing up to 40 percent of its capacity, but NNPC must still import a large volume of fuel to meet market demand. He said NNPC imports fuel through the recently upgraded Atlas Cove transfer facility in Lagos, as well as through other ports such as Port Harcourt.

16. (SBU) Adelekan said the landed price of petrol in Nigeria is about 50 naira per liter. He said NNPC is selling fuel to retailers for 38.50 naira per liter, indicating that NNPC continues to subsidize fuel prices. Retailers, including the major marketers such as Texaco and Mobil, mix their own fuel stocks with purchases from NNPC, which lowers the average cost to around 44.5 naira per liter. The retailers then add in distribution and profit margins, reflected in an average retail price of 49.5 naira per liter in Lagos. (NOTE: On June 7 most stations in Lagos sold gasoline at 49.9, while Mobil stations uniformly sold at 49.8. Diesel was selling at 50 naira per liter at all stations observed. END NOTE.) Transport costs to move fuel to other parts of Nigeria result in regional price differences throughout the country.

17. (SBU) Texaco's Adelekan noted that the rising flap over fuel prices has spooked the major marketers, who import fuel jointly through an import tendering committee (ref A). According to Adelekan, the marketers informed NNPC that they are reducing their imports for June, and will continue to do so if they are given cause to question their ability to recoup import costs, such as government attempts to impose price caps below profitability.

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Supply Steady So Far  
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18. (U) We have not seen queues stretching for miles outside of fuel stations as is the usual occurrence in advance of strike-talk and amidst fuel price increases. The reason may be that Nigerians have become accustomed to NLC strike threats not materializing. Also, prices have been creeping upward based on market pressures, rather than radically rising overnight as in the past in reaction to government edict. Recent heavy rains have also restricted movement around cities such as Lagos, and perhaps have dampened motivation to wait in line. Moreover, supplies have been steady, giving no indication of shortage, which usually sparks panic buying, hoarding, and roadside black market sales.

19. (U) NOTE: Tankers for NNPC can be seen docking at Atlas Cove's new jetty at the mouth of the Lagos harbor channel, but the facility appears capable of handling only one ship at a time. Atlas Cove also operates a single point mooring (SPM) buoy approximately six miles offshore Lagos. Even with the new state-of-the-art jetty, offloading at Atlas Cove can be hampered by facility problems elsewhere. Atlas Cove is an offloading point only, and problems with pipelines or distribution equipment at its nearest depot some 60 kilometers away sometimes slow the offloading process. END NOTE.

10. (SBU) COMMENT: Because of marketers' skittishness regarding market prices and potential domestic price caps, the outcome of strike negotiations this week will have a direct effect on major marketers' participation in fuel importation in the short-term, and possibly on fuel supplies if NNPC cannot make up the difference. NNPC is clearly still in the business of fuel importing and marketing, and still in the business of subsidizing fuel prices in Nigeria. Officials at NNPC, PPPRA and DPR seem of two minds over just how far the GON will go to deregulate the downstream sector. For example, NNPC's Group Managing Director Funshi Kupolokun recently reiterated his support for total liberalization of the sector, but he did so while warning marketers that hoarding and price gouging will be met by harsh government penalty, and while commissioning a new NNPC "Mega Station" in Enugu, one of several new government-owned retail fuel outlets planned around the country. Given world petroleum prices and market pressures in Nigeria, the GON will be hard-pressed to meet NLC demands of a fuel price rollback without deepening the government subsidy, and potentially eating up any windfall from high crude oil

prices; the GON has not budgeted for NNPC fuel subsidies. In the meantime, fuel marketers have launched a public awareness campaign with advertisements in major papers explaining what they say is the real reason for price increases.

11. (SBU) But as usual (ref B), most eyes are on petrol prices, possibly leaving room for a compromise allowing for diesel, kerosene, and jet fuel prices to continue rising. Such a move might allow the NLC and GON to save face while avoiding another round of strike brinkmanship, but it would worsen the hardship of Nigerians who would experience higher long-haul transport charges and thus higher commodity prices, higher airline ticket prices, and the higher cost of using generators passed on to final consumers. Since retail petrol sales are the key to the industry, any overt or de facto price cap now would put up yet another obstacle in the way toward fuel deregulation in Nigeria. END COMMENT.

HINSON-JONES